

Talking Points on Republican Savings Account Proposal

- The health savings account provision included in the Medicare Conference report provides an unprecedented combination of tax benefits.
- Under this provision, employer contributions to health savings accounts are exempt both from income taxes and Medicare and Social Security payroll tax. No other individual savings incentive reduces both payroll and income taxes.
- For individuals in the upper income tax brackets, the Federal tax benefits for contributions to medical savings accounts would be approximately 50%. In addition, those individuals in most states would receive an exemption from State income taxes. As a result, the total Federal and State tax benefits for the contributions for high income individuals will be well in excess of 50% in many cases.
- Contributions to health savings accounts are exempt from tax when made, and distributions from those accounts are exempt from tax if used for health care expenses. No other individual savings incentive provides such liberal income tax treatment.
- Contributions to health savings accounts are exempt from payroll taxes even if those contributions are promptly withdrawn from the account. The 10 % penalty tax on distributions not used for health reasons is smaller than the 15% payroll tax savings resulting from the contribution.
- The Archer Medical Saving Account provision provides for a 15% penalty tax on distributions not used for health reasons. The 15% tax was selected out of recognition that a lower penalty tax would create payroll tax avoidance possibilities.
- The lower penalty tax in the conference report shows that the Republicans are willing to risk widespread payroll tax avoidance, with its detrimental effects on Social Security funding, in order to provide tax subsidies designed to dismantle employer-provided coverage.